

CITY OF HAILEY, IDAHO

Financial Statements

Year Ended September 30, 2010

CITY OF HAILEY, IDAHO
Financial Statements
For the year ended September 30, 2010

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INDEPENDENT AUDITOR'S REPORT

April 20, 2011

To the Honorable Mayor and City Council
City of Hailey
Hailey, Idaho

I have audited the accompanying financial statements of the governmental activities and the business-type activities of the City of Hailey, Idaho, as of and for the year ended September 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Hailey, Idaho's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and the business-type activities of the City of Hailey, Idaho as of September 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated April 20, 2011, on my consideration of the City of Hailey, Idaho's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.

The management's discussion and analysis and budgetary comparison information, on pages 2-8 and 29-34, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. Also, the information presented as supplementary information on pages 35-37 is not a required part of the basic financial statements. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.

A handwritten signature in black ink, appearing to read "Dennis R. Brown". The signature is written in a cursive, flowing style.

DENNIS R. BROWN
Certified Public Accountant

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2010

This section of the City of Hailey's annual financial report presents management's discussion and analysis of the City's financial performance during the year ended September 30, 2010. Please use this information in conjunction with the information furnished in the City's financial statements.

FINANCIAL HIGHLIGHTS

- The total assets of the City of Hailey exceeded its liabilities at September 30, 2010 by \$22,281,749. Of this amount \$1,731,907 is unrestricted and available to meet the City's on-going obligations to citizens and creditors.
- During fiscal year 2010 the City's total net assets decreased \$ 49,569. Net assets of the governmental activities increased \$ 293,353 and net assets of business type activities decreased \$ 342,922.
- Total fund balance of governmental funds at September 30, 2010 was \$6,785,134 compared to a total governmental fund balance at September 30, 2009 of \$3,446,575. This increase is due in large measure to proceeds of the sale of general obligation bonds to construct the Rodeo Park project in the amount of \$3,425,000.
- The City has \$8,889,384 in long-term debt, including debt still remaining on a water system loan, sewer revenue bond, general obligation bonds (Rodeo Park), and accrued compensated absences.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of five parts – management discussion and analysis, the government-wide financial statements, fund financial statements, notes to the financial statements, and required supplementary information.

Government- Wide Financial Statements

These statements report information about all of the operations of the City using accounting methods similar to those used by private sector businesses.

The government-wide financial statements are divided into two categories:

The Statement of Net Assets presents all of the City's assets and liabilities with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing how government's assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. This accrual basis of accounting requires that revenues are reported when they are earned and expenses are reported as soon as liabilities are incurred. Items such as uncollected taxes, unpaid vendor invoices for items received in the previous year, and earned but unused paid time off will be included in the statement of activities as revenues and expenses, even though the cash associated with these items will not yet be received or distributed.

Management's Discussion and Analysis, Continued

Both the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (government activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). Examples of the government type activities of the City of Hailey include general government, administration and community development, public safety and emergency services activities, and street maintenance, parks and library operations. The major business-type activities of the City include the water and wastewater systems.

Fund Financial Statements

The Fund financial statements provide information about the City's major *funds*, not the City as a whole. The City uses fund accounting to separate specific sources of funds and corresponding expenditures. Funds may be required by law or may be established by the City Council to segregate funds for specific activities or objectives. The City of Hailey has the following funds:

Governmental Funds: These funds encompass the City's basic governmental, administrative and community development services, public safety and emergency services, and street maintenance, parks and library operations. These are essentially the same functions reported as governmental activities in the government-wide financial statements. Governmental fund financial statements focus on short-term inflows and outflows of resources. Information provided by these statements provides a short-term view of what resources will be available to meet needs.

The City of Hailey has four governmental funds:

General Fund – The general fund is the general operating fund of the City. It derives most of its income from property tax, state taxes, franchises and fees for services, thereby funding operations.

Debt Service Fund – The Debt Service Fund is used to account for financial resources derived from the tax levied to pay off general obligation bond debt.

Capital Improvement Fund – The Capital Improvement Fund is used to account for financial resources to be used for the acquisition of major capital facilities, equipment, and assets. It is shown, in the financial statements, as a restricted fund, created in 2009 by the Hailey City Council. Following the acquisition or construction of major capital facilities, the capital assets then become depreciable assets in their respective General or Proprietary Funds.

Grants Fund – In 2010, the Hailey City Council established a Grant Fund, developed for the purpose of transparency and accountability in tracking city-wide grant programs, including grant revenues, in-kind and cash matches from appropriate city funds, and total grant expenditures. Each grant project is tracked separately within the fund, and the fund captures the entire grant program. At the end of each fiscal year the total revenues and expenses of each grant project are allocated to the respective General or Proprietary fund, where capital facilities become depreciable assets and operating programs developed through grants are either discontinued or absorbed into their proper department.

Proprietary Fund: User fees finance activities in these funds. The City of Hailey only has one type of propriety fund, the enterprise fund. The water and wastewater utilities and all the activities necessary to support their operation, including system component development, improvement, or replacement, are accounted for in this fund. Accounting for this fund is the same as a private business on a full accrual basis.

Notes to the Financial Statements

The notes provide additional information that is necessary to fully understand the data presented in the government-wide and fund financial statements.

Management's Discussion and Analysis, Continued

Required Supplementary Information

This section has information that further explains and supports the information in the financial statements by including a comparison of the City's budget data for the year.

FINANCIAL ANALYSIS OF THE CITY OF HAILEY AS A WHOLE

A comparison of the City of Hailey's Assets, Liabilities and Net Assets

ASSETS	<u>2008-2009</u>	<u>2009-2010</u>
Current and other Assets	\$ 9,118,153	\$ 12,405,017
Capital Assets – Net	<u>19,923,863</u>	<u>19,636,152</u>
Total Assets	29,042,016	32,041,169
LIABILITIES		
Current Liabilities	680,860	870,036
Long Term Liabilities	<u>6,029,835</u>	<u>8,889,384</u>
Total Liabilities	6,710,695	9,759,420
NET ASSETS		
Invested in Capital Assets, Net of Debt	14,123,880	10,988,165
Restricted	5,346,129	9,561,677
Unrestricted	<u>2,861,312</u>	<u>1,731,907</u>
Total Net Assets	<u>\$22,331,321</u>	<u>\$ 22,281,749</u>

Net Assets

Net assets measure the difference between what the City owns (assets) versus what the City owes (liabilities). The total assets of the City of Hailey exceeded its liabilities at September 30, 2010 by \$22,281,749, a decrease of \$49,569 over the previous year's net asset balance of \$22,331,321. Of this amount \$1,731,907 is unrestricted and available to meet the City's on-going obligations to citizens and creditors, which is \$1,129,405 less than the previous year's unrestricted amount of \$2,861,312. The unrestricted net assets equal 7.8% of net assets. This decrease is due to the city having increased its bonded indebtedness, and restricted its assets in order to meet its debt obligations and complete capital projects of both the capital improvement and enterprise funds of the city.

The largest portion of the City's net assets, 49.1%, is invested in capital assets net of related debt. Capital assets include land, building, equipment and machinery, and infrastructure, and are used to provide services to the citizens and are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The City's net fixed assets decreased in book value by \$3,135,715, which sum is comprised largely of the bond proceeds not expended on the Rodeo Park project.

Changes in Net Assets

During the year the City's financial position decreased by \$49,569, compared to the previous year ending September 30, 2009, during which the City's financial position decreased by \$1,775,598. The year prior to that, ending September 30, 2008, showed the City's financial position increasing by \$1,378,405. The 2008 and 2009 difference is largely due to the timing of receipts from the State Revolving Loan Fund for a water storage tank project nearing construction completion during the summer of 2007 and the reclassifying of this as long-term debt in the 2009 financial statements.

Management's Discussion and Analysis, Continued

Governmental Activities:

Governmental activities increased the City's net assets by \$293,353, compared to the previous year's increase of \$1,137,195. During the 2009 fiscal year, Hailey received \$980,000 annexation fees and \$29,337 development impact fees. By comparison, in 2010 Hailey received only \$55,547 annexation fees, \$59,596 in lieu fees, and \$54,313 development impact fees. In both years, operational expenses were budgeted and managed such that they did not exceed operational revenues, a factor contributing to the decrease in governmental activities as general fund operational revenues continued to decline in the recessional economic climate.

Business-Type Activities:

Business-type activities decreased net assets by \$342,922, compared to the previous year's decrease of \$2,912,793. The 2009 decrease was affected by a period adjustment of \$2,400,000 to account for the debt incurred in November, 2008 to pay back the State Revolving Loan Fund for a water storage tank project constructed largely in 2007. The current year decrease results from \$ 697,378 of depreciation expense. When this depreciation is removed the City's water and wastewater systems had sufficient increases in cash to allow for debt service requirements.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Governmental Funds

General Fund - The general fund balance at September 30, 2010 was \$711,388 compared to a \$680,988 operations component the previous year. This amount contains a non-binding endowment for fireworks display, contributed from donations, of \$106,175.

Capital Improvement Fund – The capital fund was established in fiscal year 2009 with a transfer of \$2,590,609 of annexation fees which had previously been accounted for in general, water, and wastewater operating funds, and reported a fund balance at September 30, 2010 of \$2,532,244.

Debt Service Fund -- The debt service fund has been created to account for the bond proceeds of the Rodeo Park project. These bonds are general obligation and will be paid from the general funds of the City over the next ten years.

Grant Fund –The grant fund has been created to track city-wide grant programs, including grant revenues, in-kind and cash matches from appropriate city funds, and total grant expenditures. Within the fund, each grant project is tracked separately. At fiscal year end these captured project amounts are transferred out to the government fund or enterprise fund in which the grant activity or depreciable asset should reside.

General Fund Budgetary Highlights

Due to the recessionary nature of the economy, the City of Hailey monitored its expenses to remain below revenues, which continued to decline throughout the fiscal year. The general fund revenues were \$165,356 less than budgeted. General fund expenses were held at \$195,756 less than budgeted, for a year-end excess in revenues over expenses of \$ 30,400.

Capital Improvement Fund Budgetary Highlights

Hailey launched two multi-million dollar capital projects in 2010, spending \$399,848 on the Rodeo Grounds Recreational Facilities Project in the design and construction start-up following voter approval of a general

Management’s Discussion and Analysis, Continued

obligation bond, and spending \$45,770 on design and engineering for the Woodside Boulevard Complete Streets Initiative Project, which was the subject of a grant application submitted in late 2010. In addition, capital funds were spent on irrigation system retrofits in two parks.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2010 the City had \$19,636,152 invested in capital assets (net of accumulated depreciation) compared to last year’s \$19,923,863, a decrease of \$287,711 compared to the previous year’s increase of \$ 35,112. Net capital assets of governmental activities increased by \$ 115,095 and those of business-type activities decreased by \$402,806 in the current period.

The City investment in capital assets includes land, park improvements, automobiles and equipment and street lights, and sidewalks.

Long-Term Debt

The City has a 20-year sewer revenue bond of \$4.5 million, a long-term debt obligation through 2021. The current amount on the debt is \$3,088,427. The permanent financing of the Quigley Canyon water storage facility of \$2,400,000 has been recorded and the balance on this 20 year DEQ loan is \$ 2,271,208. The City sold general obligation bonds of \$3,425,000 at a premium of \$136,648 during the current year to finance the Rodeo Park project.

The City’s maximum general obligation debt capacity is 2% of the taxable assessed value of properties within the city limits. At the end of September, 2010, the city’s taxable assessed value was \$1,065,443,287. The 2% general obligation bond debt capacity of \$21,308,865 is now reduced by the outstanding new issue general bond obligation of \$3,425,000, leaving the City with a general obligation bond debt capacity remaining of \$17,883,865.

Hailey has met the principal and interest payments on outstanding bonds and other indebtedness in the past 10 years when due. Additionally, no refunding bonds have been issued for the purpose of preventing an impending default. Hailey’s ability to pay its general obligation long-term debt is reliant on property tax payments. The top ten taxpayers within the City of Hailey comprise 7% of the total district taxpayers. They are:

City of Hailey Top Ten Taxpayer Accounts

Taxpayer	Type of Business	Taxable Assessed Value
Old Cutters Inc	Mixed residential subdivision	20,197,961
Power Engineers inc	Engineering firm	11,679,302
New Albertsons Inc	Grocery Store	7,675,085
711 North Main Street	North Hailey Business Center	7,472,910
Sweetwater Company LLC	Multi-family residential project	6,953,200
Spring Meadow LLC	Planned unit development	6,899,885
Wilderness LLC	Condominium development	6,587,000
Balmoral LP	Apartment Rentals	6,004,167
Alturas Partners	Property Development	5,895,570
Sprenger Grubb & Associates	Multi-family residential project	4,727,010
Top 10 Taxpayers	7%	84,092,090
All Other District Taxpayers	93%	981,351,197
Total District Taxpayers 2010	100%	1,065,443,287

Management's Discussion and Analysis, Continued

The assessed net taxable value of properties within the city has been in decline since a peak in values in 2008.

Assessed Market Values of Taxable Property and Tax Collection Record

Fiscal Year	Full Market Value	Homeowner's Exemption	Net Taxable Value	Tax Amount Levied	Tax Collected for previous year
Sept 30 2010	1,236,317,415	170,874,128	1,065,443,287	-	-
January 2010	1,460,667,411	181,921,576	1,278,745,835	1,925,951	1,789,714
January 2009	1,580,943,641	176,823,018	1,404,120,623	1,870,361	1,803,834
January 2008	1,590,462,395	155,321,416	1,435,140,979	1,812,638	1,721,818

There are overlapping taxing districts within the City have the statutory power to levy regular property taxes. Representative 2010 levy rates for each overlapping district from the County are listed below:

City of Hailey Representative Levy Rates per \$1000 Taxable Market Value Tax Year 2010

Taxing District	Levy per \$1,000 Taxable Assessed Value
City of Hailey Total	2.186094
Hailey City	1.810794
Bond levy	0.375300
Blaine County	
Override	0.252431
Other levies	0.816461
Blaine County School District No. 61	3.602201
Ambulance	0.159092
Hailey Cemetery	0.092832
Blaine County Recreation District	0.100126

FY10 BUDGETARY CONSIDERATIONS

The City of Hailey bases its operating budgets on a revenue analysis and projection. In a time of declining revenues, the city manages its general fund cash such that a minimum fund balance of 10% of budget is needed to meet its obligations throughout the year, particularly in the first quarter of each year. Expenses will continue to be budgeted moderately as the fund balance target is increased to 20% of budget to create emergency contingencies within the general fund.

The enterprise fund budgets carry a significant cash reserve, which allows the city to adjust its user fees to a declining base rate and an increasing metered-usage rate. Having completed a meter-installation project and begun city-wide metered billing in October 2008, the city has since incrementally amended its rates to encourage water conservation and to afford users better personal management of their impact upon the city's water and sewer system and its budget. During the same time period as these new rate structures are progressively implemented, the enterprise fund expenses have been systematically reduced in an effort to hold overall costs as low as possible for rate payers.

Hailey achieved a planned separation of capital improvement funds from general operating funds during the 2009 year. This separation of funds has benefited the city in several ways: 1) operational revenue and expenses are tracked and monitored against their own cash flow; 2) capital projects are budgeted and the funds spent without detriment to operations or operational cash flow; 3) a former practice of utilizing capital fund balance to defray first quarter operating expenses have been discontinued; and 4) the financial position of the City of Hailey is stated more clearly in its financial reports.

Management's Discussion and Analysis, Continued

The city began earnest efforts in 2010 to launch planned capital improvements by leveraging its capital improvement funds into matching funds for eligible grants. Hailey achieved a 99% success rate on the grants for which it applied during calendar year 2010, and was able to leverage \$2 million in capital funds into \$6.3 million in capital projects through these grant awards. With reduced staff and resources, Hailey's grant effort has also focused on operational expense recovery and supplements through meaningful grants. In its 2011 budgeting process, Hailey adopted as part of its budget a Grant Fund, through which transparency and accountability within the grant program is monitored and by which the impact of the grant program can be clearly seen. The city tracks, through the grant fund, all of the grant revenue, as well as the city's in-kind contributions and its cash contributions, which are transferred to the grant fund monthly as an inter-fund receivable. All of the expenses are then captured by project within the grant fund, and at fiscal year end transferred out to the government fund or enterprise fund in which the grant activity or depreciable asset should reside.

Hailey has developed 2011 expense policies for its capital and grant projects as follows: All salary and fringe costs, as well as contractual and volunteer labor, materials, and equipment costs are captured through a project code as project expenses, from the project's conceptual inception to its completion. The project budget is developed, and identified by its predominant funding source as either a Capital Fund project or a Grant Fund project. Until a project is funded by the city governing body through an agreement, ordinance, resolution, or specific written approval by the grantor, all expenses except licensed contractual design and engineering costs procured solely for the project are spent from operating funds. Following the city governing body's approval of a funding agreement, ordinance, resolution, or upon receipt of specific written approval by the grantor, project costs, including city salary and fringe costs for applied project time, may be spent from the capital or grant fund.

Hailey continues to be challenged to find opportunities to control expenses in this economic climate, and find even more efficient ways of delivering services to its constituents. The City's most significant challenge will be in securing a consistent revenue source to fund capital needs within the city and to increase levels of service, both operationally and in its infrastructure.

Requests for Information

This report is designed to provide a general overview of the City of Hailey's finances for our citizens and customers. If you have questions about this report or need additional financial information contact the Finance Office: 115 Main Street S., Hailey, Idaho 83333, 788-4221.

CITY OF HAILEY, IDAHO
Statement of Net Assets
at September 30, 2010

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total Primary Government</u>
<u>ASSETS</u>			
Cash and Deposits	\$ 228,476	\$ 533,622	\$ 762,098
Investments	596,145	378,284	974,429
Accounts Receivable	232,722	275,363	508,085
Taxes Receivable	99,323		99,323
Due From Other Governments	240,325	144,193	384,518
Inventory		114,887	114,887
Restricted Cash	6,140,492	3,421,185	9,561,677
Totals	7,537,483	4,867,534	12,405,017
Capital Assets:			
Land, Easements and Water Rights	2,431,674	235,391	2,667,065
Construction Projects in Process		88,741	88,741
Infrastructure	1,015,737	14,034,353	15,050,090
Buildings and Improvements	3,173,359	683,247	3,856,606
Equipment and Vehicles	5,093,252	4,290,078	9,383,330
Accumulated Depreciation	(4,128,769)	(7,280,911)	(11,409,680)
Total Capital Assets	7,585,253	12,050,899	19,636,152
Total Assets	15,122,736	16,918,433	32,041,169
<u>LIABILITIES</u>			
Accounts Payable	313,090	71,332	384,422
Accrued Payroll and Benefits Payable	158,631		158,631
Accrued Interest Payable		46,354	46,354
Surety and Security Bonds Payable	280,629		280,629
Long-term Liabilities:			
Portion due or payable within one year:			
Bonds Payable	285,000	294,141	579,141
Portion due or payable after one year:			
Bonds and Loans Payable	3,140,000	5,065,494	8,205,494
Unamortized Bond Premium	(136,648)		(136,648)
Compensated Absences	206,586	34,811	241,397
Total Liabilities	4,247,288	5,512,132	9,759,420
<u>NET ASSETS</u>			
Invested in Capital Assets - net of related debt	4,296,901	6,691,264	10,988,165
Restricted For:			
Debt Service		3,421,185	3,421,185
Capital Improvements	6,140,492		6,140,492
Unrestricted	438,055	1,293,852	1,731,907
Total Net Assets	\$ 10,875,448	\$ 11,406,301	\$ 22,281,749

The accompanying notes are a part of these financial statements.

CITY OF HAILEY, IDAHO
Statement of Activities
For the Year Ended September 30, 2010

Activities:	Expenses	Program Revenues		Net (Expense) Revenues and Changes in Net Assets		
		Fees, Fines, and Charges for Services	Capital Grants and Contributions	Governmental Activities	Business Type Activities	Total
Governmental:						
General Government	\$ 770,370	\$ 300,230	\$ 101,869	\$ (368,271)		\$ (368,271)
Public Protection:						
Public Safety	1,720,179	282,082	62,641	(1,375,456)		(1,375,456)
Streets	774,428			(774,428)		(774,428)
Parks and Recreation	189,843	12,169		(177,674)		(177,674)
Library	454,790	21,018	4,500	(429,272)		(429,272)
Unallocated Depreciation	417,020			(417,020)		(417,020)
Total Governmental Activities	<u>4,326,630</u>	<u>615,499</u>	<u>169,010</u>	<u>(3,542,121)</u>		<u>(3,542,121)</u>
Business Type:						
Water	1,273,929	1,086,269			\$ (187,660)	(187,660)
Wastewater	1,334,006	1,195,155	160,570		21,719	21,719
Interest - on long-term debt	230,667				(230,667)	(230,667)
Total Business-type Activities	<u>2,838,602</u>	<u>2,281,424</u>	<u>160,570</u>		<u>(396,608)</u>	<u>(396,608)</u>
Total City of Hailey, Idaho	<u>\$ 7,165,232</u>	<u>\$ 2,896,923</u>	<u>\$ 329,580</u>	<u>(3,542,121)</u>	<u>(396,608)</u>	<u>(3,938,729)</u>

General Revenues:		
Property taxes	1,866,098	1,866,098
Local Option sales taxes	310,088	310,088
Franchises, licenses, permits	460,754	460,754
State of Idaho revenue sharing	428,226	428,226
State of Idaho sales tax	71,422	71,422
State of Idaho liquor receipts	144,314	144,314
State highway user collections	267,735	267,735
Penalty and interest on property taxes	9,426	9,426
County court fines	51,305	51,305
Earnings on investments	53,083	53,686
Miscellaneous	173,023	173,023
Gain on Sale of Assets		0
Total general revenues	<u>3,835,474</u>	<u>3,889,160</u>
Net Transfers In (Out)		0
Prior Period Adjustment		0
Changes in net assets	293,353	(49,569)
Net Assets - Beginning	<u>10,582,095</u>	<u>11,749,223</u>
Net Assets - Ending	<u>\$ 10,875,448</u>	<u>\$ 11,406,301</u>

The accompanying notes are a part of these financial statements.

CITY OF HAILEY, IDAHO
Balance Sheet
Governmental Funds
for the year ended September 30, 2010

	General Fund	Capital Improvement Fund	Debt Service Fund	Total Governmental Funds
ASSETS:				
Cash and Deposits	\$ 189,145	\$ 19,128	\$ 606,395	\$ 814,668
Investments	702,340	2,512,999	2,935,107	6,150,446
Accounts Receivable	232,722			232,722
Due From Other Governments	240,325			240,325
Property Taxes Receivable	99,206	117		99,323
Total Assets	<u>1,463,738</u>	<u>2,532,244</u>	<u>3,541,502</u>	<u>7,537,484</u>
LIABILITIES:				
Accounts Payable	313,090			313,090
Accrued Payroll Expenses	158,631			158,631
Surety and Security Bonds Payable	280,629			280,629
Total Liabilities	<u>752,350</u>	<u>0</u>	<u>0</u>	<u>752,350</u>
FUND BALANCE:				
General Fund	711,388			711,388
Capital Project Funds		2,532,244		2,532,244
Debt Service Fund			3,541,502	3,541,502
Total Fund Balance	<u>711,388</u>	<u>2,532,244</u>	<u>3,541,502</u>	<u>6,785,134</u>
Total Liabilities and Fund Balance	<u>\$ 1,463,738</u>	<u>\$ 2,532,244</u>	<u>\$ 3,541,502</u>	<u>\$ 7,537,484</u>

The accompanying notes are a part of these financial statements.

CITY OF HAILEY, IDAHO
Reconciliation of the Balance Sheet of Governmental Funds
To the Statement of Net Assets
for the year ended September 30, 2010

Total Governmental Fund Balances (Page 11) \$ 6,785,134

Amounts reported for governmental activities in the statement of net assets
are different because:

Capital assets used in governmental activities are not financial
resources and, therefore, are not reported in the governmental funds.
The cost of assets is \$ 11,714,022 less accumulated depreciation \$ 4,128,769 7,585,253

Long-term liabilities, including bonds, capital leases payable and
compensated absences are not payable in the current period and
therefore are not reported in the governmental funds (3,494,939)

Net Assets of Governmental Activities (Page 9) \$ 10,875,448

The accompanying notes are a part of these financial statements.

CITY OF HAILEY, IDAHO
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
for the year ended September 30, 2010

	General Fund	Capital Improvement Fund	Debt Service Fund	Total Governmental Funds
REVENUE:				
Property taxes	\$ 1,866,098	\$	\$	\$ 1,866,098
Local Option sales taxes	310,088			310,088
Franchises, licenses, permits	460,754			460,754
State of Idaho shared revenue	428,226			428,226
State of Idaho sales tax	71,422			71,422
State of Idaho liquor receipts	144,314			144,314
State highway user collections	267,735			267,735
Penalty and interest on property taxes	9,426			9,426
County court fines	51,305			51,305
Fees, fines and charges for services	390,404	225,095		615,499
Grants and contributions	151,090	17,920		169,010
Earnings on investments	8,032	43,528	1,523	53,083
Bond Proceeds			3,539,979	3,539,979
Miscellaneous	173,023			173,023
	<u>4,331,917</u>	<u>286,543</u>	<u>3,541,502</u>	<u>8,159,962</u>
Total Revenue				
EXPENDITURES:				
General Government	918,602			918,602
Public Safety	1,820,179			1,820,179
Streets	918,103			918,103
Parks and Recreation	189,843			189,843
Library	454,790			454,790
Capital outlay		519,886		519,886
Debt Service				0
	<u>4,301,517</u>	<u>519,886</u>	<u>0</u>	<u>4,821,403</u>
Total Expenditures				
EXCESS REVENUE (EXPENDITURES)	30,400	(233,343)	3,541,502	3,338,559
OTHER FINANCING SOURCES (USES):				
Operating transfers from other funds				0
Operating transfers (to) other funds				0
	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
NET CHANGE IN FUND BALANCES	30,400	(233,343)	3,541,502	3,338,559
FUND BALANCE - BEGINNING	<u>680,988</u>	<u>2,765,587</u>	<u>0</u>	<u>3,446,575</u>
FUND BALANCE - ENDING	<u>\$ 711,388</u>	<u>\$ 2,532,244</u>	<u>\$ 3,541,502</u>	<u>\$ 6,785,134</u>

The accompanying notes are a part of these financial statements.

CITY OF HAILEY, IDAHO
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of Governmental Funds
To the Statement of Activities
for the year ended September 30, 2010

Net Change in Fund Balance - Total Governmental Funds (Page 13)	\$ 30,400
<p>Governmental funds report capital outlays as current year expenditures. In the Statement of Activities the cost of these assets is allocated over their estimated useful lives as depreciation expense. This is the amount of current capital outlay for new fixed assets.</p>	
This is the amount of current year depreciation.	(417,020)
This is the amount of new Governmental Fund assets.	571,446
This is the amount of disposed of Governmental Fund assets.	0
<p>Long term liabilities are not recorded in the Governmental funds. Capital lease payments are expensed in the period that the payments are paid. Capital leases are recorded as liabilities in the Statement of Net Assets. Current year payments reduce the amount of the debt.</p>	
This is the amount of current year payments of capital leases.	124,150
<p>Liability for personal leave days are not recorded in Governmental funds.</p>	
This is the increase in compensated leave during the year.	<u>(15,623)</u>
Change in Net Assets of Governmental Activities (Page 10)	<u>\$ 293,353</u>

The accompanying notes are a part of these financial statements.

CITY OF HAILEY, IDAHO
Statement of Net Assets
Proprietary Funds
at September 30, 2010

	Water	Wastewater	Totals
Assets:			
Current Assets:			
Cash and Deposit	\$ 375,694	\$ 157,928	\$ 533,622
Investments	378,284		378,284
Accts receivable - customers	162,039	113,324	275,363
Due From Other Governments		144,193	144,193
Inventory	114,887		114,887
	1,030,904	415,445	1,446,349
Restricted Current Assets:			
Cash and Deposits	2,279,236	1,141,949	3,421,185
Total Current Assets	3,310,140	1,557,394	4,867,534
Capital Assets:			
Plant and equipment	9,850,297	9,481,513	19,331,810
Accumulated depreciation	(3,404,316)	(3,876,595)	(7,280,911)
Net Plant and equipment	6,445,981	5,604,918	12,050,899
Total Assets	9,756,121	7,162,312	16,918,433
Liabilities:			
Current Liabilities:			
Accounts and Interest Payable	80,887	36,799	117,686
Current portion long-term debt	89,141	205,000	294,141
Total current liabilities	170,028	241,799	411,827
Noncurrent Liabilities:			
Bonds Payable	2,182,067	2,883,427	5,065,494
Compensated Absences Payable	10,980	23,831	34,811
Total noncurrent liabilities	2,193,047	2,907,258	5,100,305
Total Liabilities	2,363,075	3,149,057	5,512,132
Net Assets:			
Investment in capital assets net of related debt	4,174,773	2,516,491	6,691,264
Restricted	2,279,236	1,141,949	3,421,185
Unrestricted	939,037	354,815	1,293,852
Total Net Assets	\$ 7,393,046	\$ 4,013,255	\$ 11,406,301

The accompanying notes are a part of these financial statements.

CITY OF HAILEY, IDAHO
Statement of Revenues, Expenditures, and Changes in Net Assets
Proprietary Funds
for the year ended September 30, 2010

	<u>Water</u>	<u>Wastewater</u>	<u>Totals</u>
Operating Revenues:			
Charges for services	\$ 1,049,458	\$ 1,171,366	\$ 2,220,824
Hookups and connections	32,129	21,889	54,018
Reimbursements and Misc.	<u>4,682</u>	<u>1,900</u>	<u>6,582</u>
Total Operating Revenue	<u>1,086,269</u>	<u>1,195,155</u>	<u>2,281,424</u>
Operating Expenses:			
Salaries and benefits	502,756	572,954	1,075,710
Administrative and supplies	451,261	383,616	834,877
Depreciation	<u>319,912</u>	<u>377,436</u>	<u>697,348</u>
Total Operating Expenses	<u>1,273,929</u>	<u>1,334,006</u>	<u>2,607,935</u>
Operating Income (Loss)	<u>(187,660)</u>	<u>(138,851)</u>	<u>(326,511)</u>
Nonoperating Revenues (Expenses):			
Interest Income	38,216	15,470	53,686
Interest Expense	(80,114)	(150,553)	(230,667)
Gain (Loss) on asset disposal			0
Other Grants and Miscellaneous		<u>160,570</u>	<u>160,570</u>
Total Nonoperating	<u>(41,898)</u>	<u>25,487</u>	<u>(16,411)</u>
Income (Loss) before transfers	<u>(229,558)</u>	<u>(113,364)</u>	<u>(342,922)</u>
Transfers in			
Transfers out			<u>0</u>
Net Income (Loss)	(229,558)	(113,364)	(342,922)
Total Net Assets - Beginning	<u>7,622,604</u>	<u>4,126,619</u>	<u>11,749,223</u>
Total Net Assets - Ending	<u>\$ 7,393,046</u>	<u>\$ 4,013,255</u>	<u>\$ 11,406,301</u>

The accompanying notes are a part of these financial statements.

CITY OF HAILEY, IDAHO
Statement of Cash Flows
Proprietary Funds
for the year ended September 30, 2010

	Water Fund	Wastewater Fund	Total
Cash Flows From Operating Activities:			
Receipts from customers	\$ 1,089,915	\$ 1,062,724	\$ 2,152,639
Payments to suppliers	(404,483)	(358,817)	(763,300)
Payments to employees	(503,748)	(576,040)	(1,079,788)
Other receipts	4,682	1,900	6,582
Net cash provided (used) by operations	186,366	129,767	316,133
Cash Flows From Capital and Related Financing Activities:			
Purchase and construction of capital assets	(52,493)	(242,053)	(294,546)
Grants		160,570	160,570
Principal paid on capital debt	(86,504)	(210,169)	(296,673)
Interest paid on capital debt	(80,114)	(150,553)	(230,667)
Net cash provided (used) by capital and related financing activities	(219,111)	(442,205)	(661,316)
Cash Flows From Investing Activities:			
Interest Income	38,216	15,470	53,686
Net Increase (Decrease) in Cash and Equivalents	5,471	(296,968)	(291,497)
Balances - Beginning of the year	3,027,743	1,596,844	4,624,587
Balances - Ending of the year	\$ 3,033,214	\$ 1,299,876	\$ 4,333,090
Displayed as:			
Pooled Cash and Investments	753,978	157,927	911,905
Restricted Assets	2,279,236	1,141,949	3,421,185
Balances - Ending of the year	\$ 3,033,214	\$ 1,299,876	\$ 4,333,090
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Operating Income (Loss)	(187,660)	(138,851)	(326,511)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation expense	319,912	377,436	697,348
Changes in assets and liabilities:			
Receivables, net	8,328	(130,531)	(122,203)
Inventory	42,028	0	42,028
Compensated Absences	(992)	(3,086)	(4,078)
Accounts and other payables	4,750	24,799	29,549
Net Cash Provided (Used) by Operating Activities	\$ 186,366	\$ 129,767	\$ 316,133

The accompanying notes are a part of these financial statements.

CITY OF HAILEY, IDAHO
NOTES TO THE FINANCIAL STATEMENTS
AT SEPTEMBER 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Hailey, Idaho was incorporated in 1909. The City operates under a Mayor-Council form of government and provides the following services: public safety, public works, recreation, social services, and community development. The City also provides water and waste water services which are financed by user charges. The significant revenues and receivables are generated by the residents of the City of Hailey through property tax and water and waste water charges.

The financial statements of the City of Hailey have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for established governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

1. Financial Reporting Entity

The City's financial statements include the accounts of all operations under the oversight authority of the City Council and those of separately administered organizations over which the City exercises significant influence. Significant influence or accountability is based primarily on operational or financial relationships with the City (as distinct from legal relationships).

2. Government-Wide and Fund Financial Statements

The government-wide financial statements include the Statement of Net Assets and the Statement of Activities. These statements report financial information for the City as a whole excluding fiduciary activities such as employee pension plans. Individual funds are not displayed but the statements distinguish governmental activities, generally supported by taxes and City general revenues, from business-type activities, generally financed in whole or in part with fees charged to external customers.

The Statement of Activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees, fines and forfeitures, and other charges to users of the City's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets and include fees to developers. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

Fund financial statements are provided for governmental and proprietary funds. Major individual governmental and enterprise funds are reported in separate columns with composite columns for non-major funds.

CITY OF HAILEY, IDAHO
NOTES TO THE FINANCIAL STATEMENTS
AT SEPTEMBER 30, 2010

Continued...

3. Measurement Focus and Basis of Accounting

The financial statements of the City are prepared in accordance with generally accepted accounting principles (GAAP). The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The City's reporting entity does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

The government-wide statements report using the economic resources measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). However, internal eliminations do not include utility services provided to City departments. Reimbursements are reported as reductions to expenses. Proprietary fund financial statements also report using this same focus and basis of accounting although internal activity is not eliminated in these statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax revenues are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The City of Hailey uses an availability period of sixty days. Expenditures are recorded when the related liability is incurred, except for general obligation bond principal and interest which are reported as expenditures in the year due.

Major revenue sources susceptible to accrual include: sales and use taxes, property taxes, and intergovernmental revenues. In general, other revenues are recognized when cash is received.

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales of services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

4. Fund Accounting

The accounts of the City are organized and operated on the basis of funds and account groups. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements.

**CITY OF HAILEY, IDAHO
NOTES TO THE FINANCIAL STATEMENTS
AT SEPTEMBER 30, 2010**

Continued...

GOVERNMENTAL FUNDS

The City reports the following major governmental funds:

General Fund - The General Fund is the general operating fund of the City. It is used to account for all financial resources not reported in another fund.

Debt Service Funds — The debt service fund is used to account for the accumulation of financial resources for the payment of principal and interest on the City's governmental debt.

PROPRIETARY FUNDS

Enterprise Funds - Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. Enterprise funds include the Water and Waste Water funds.

OTHER FUND TYPES

The City also reports the following fund types:

Capital Projects Funds - These funds account for proceeds from long-term debt financing and revenues and expenditures related to authorized construction and other capital asset acquisitions.

Fiduciary Funds - Fiduciary funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. These include expendable trust funds, non-expendable trust funds, and agency funds. The City currently does not have any agency funds.

5. Budgetary Data

The City of Hailey follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. Prior to September 1, the city clerk submits to the city council a proposed operating budget for the fiscal year commencing on October 1. The operating budget includes proposed expenditures and the means of financing them.
- b. After reviewing the preliminary budget, the council sets a public budget hearing to obtain taxpayer comments.

CITY OF HAILEY, IDAHO
NOTES TO THE FINANCIAL STATEMENTS
AT SEPTEMBER 30, 2010

Continued...

c. Prior to October 1, the budget is legally enacted through passage of an ordinance.

The budget is prepared on the modified accrual basis of accounting, as described above.

The City does not use the encumbrance method of accounting.

6. Cash and Cash Equivalents

The City maintains and controls cash and investment pools in which the primary government funds share. Each fund's portion of a pool is displayed on its respective balance sheet.

For purposes of the Statement of Cash Flows, the enterprise funds consider cash and cash equivalents to include cash on hand and all amounts on deposit with financial institutions.

7. Inventory

Inventories in governmental funds are considered to be immaterial and are not reported. Proprietary fund inventories are recorded at the lower of cost or market on a first-in, first-out basis.

8. Capital Assets, Depreciation, and Amortization

The City's property, plant, equipment, and infrastructure with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. The City maintains infrastructure asset records consistent with all other capital assets. Proprietary capital assets are also reported in their respective fund financial statements. Donated assets are stated at fair value on the date donated. The City generally capitalizes assets with cost of \$5,000 or more as purchase and construction outlays occur. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations. The City has not, nor is required to retroactively report infrastructure assets. The City has capitalized all acquired infrastructure after October 1, 2003.

Estimated useful lives, in years, for depreciable assets are as follows:

Building and Improvements	20-50
Equipment	5-15
Infrastructure	15-20
Books	5-10
Trucks and Vehicles	3-10

Interest costs are capitalized when incurred by proprietary funds on debt where proceeds were used to finance the construction of assets.

CITY OF HAILEY, IDAHO
NOTES TO THE FINANCIAL STATEMENTS
 AT SEPTEMBER 30, 2010

Continued...

9. Long-Term Debt

In the government-wide and proprietary financial statements, outstanding debt is reported as liabilities.

NOTE 2 - CASH AND CASH EQUIVALENTS

Interest Rate Risk — The City does not have a formal investment policy that limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk — The City has no investment policy which would further limit its investment choices beyond those stated in Idaho Code. The City's investment in the State Treasurer's Investment Pool is not currently rated. All deposits in the State Investment Pool are either FDIC insured or fully collateralized, with securities held in trust by the State Treasurer but not in the name of the City of Hailey

Concentration of Credit Risk — The City places no limit on the amount the City may invest in any one issuer.

Custodial Credit Risk, Deposits — Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. The City's pooled and non-pooled deposits are categorized to give an indication of the level of risk assumed by the City at fiscal year-end. The cash is recorded in terms of US currency and consists of:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Cash on Hand	\$ 391	\$ 391
Mountain West – Cash Management Checking	35,916	35,916
Rehn Flex Account	(5,408)	(5,408)
Chase Bank – Checking	10,950	10,950
Certificates of Deposit		
Wells Fargo Bank	261,164	261,164
Ireland Bank	250,390	250,390
DL Evans Bank	260,027	260,027
US Bank	261,044	261,044
Bank of America	261,339	261,339
Bank of America	7,031	7,031
Zions Bank	257,007	257,007
Bank of the West	258,651	258,651
Mountain West Bank	173,842	173,842
State of Idaho Investment Pool	6,940,586	6,940,586
Piper Jaffray Investments	<u>2,328,284</u>	<u>2,325,274</u>
Totals	<u>\$ 11,301,214</u>	<u>\$ 11,298,204</u>

**CITY OF HAILEY, IDAHO
NOTES TO THE FINANCIAL STATEMENTS
AT SEPTEMBER 30, 2010**

Continued...

There are three categories of credit risk that apply to the City's cash and investments:

- 1) Insured or collateralized or for which the securities are held by the City or the City's agent in the City's name;
- 2) Uninsured and uncollateralized; or
- 3) Uninsured and unregistered for which the securities are held by the counter party or by its trust department or agent but not in the City's name. This category also includes repurchase agreements with no underlying securities.

Balances are held in each category as follows:

	Categories			Carrying Amount
	1	2	3	
Deposits	1,965,691	66,653		2,032,344
Investment in Piper Jaffray				2,325,274
Investments in State of Idaho's Investment Pool				6,940,586
Total Cash and Investments				<u>\$ 11,298,204</u>

Funds held in the Water and Wastewater Funds (Enterprise funds) in the amount of \$3,421,185 are reserved for repairs and replacement of the existing systems and equipment. Funds held in the Capital Improvement Fund of \$2,492,795 are reserved for capital construction projects in general. The Bond Fund reserve in the amount of \$ 3,541,502 is reserved for the construction of the Rodeo Park Project. A separate Debt Service Fund of the same amount has been established for collecting the levies to repay the bond interest and principal payments for 10 years.

NOTE 3 - TAXES RECEIVABLE

Property taxes are levied in November of each year and recognized as revenue when the tax notices are printed. Taxes are due in two equal installments at December and June following the levy date.

If payment is not received upon the due dates, a 2% penalty is charged and taxes are classified as past due subject to 12% interest. Taxes receivable are stated at taxes levied less amounts collected and canceled.

The City has not experienced any significant loss of delinquent taxes receivable in past years, and, therefore, does not consider it necessary to establish any allowance for uncollectible taxes receivable.

NOTE 4 - ACCOUNTS RECEIVABLE

The City charges for water and wastewater services and garbage collection on the first of the month. The water is metered and charged according to actual usage. The wastewater rate is based upon actual winter (non-irrigation) water usage. Water and wastewater are billed in arrears; garbage collection is prepaid. The balance of accounts receivable is for billings occurring Sept 30 and prior. Due to water and wastewater services that would be terminated if an account goes 90 days overdue, very few accounts become uncollectible.

CITY OF HAILEY, IDAHO
NOTES TO THE FINANCIAL STATEMENTS
AT SEPTEMBER 30, 2010

Continued...

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2010, is as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental Activities:				
<i>Capital Assets not being depreciated:</i>				
Land, Easements, Water Rights	\$ 2,431,674	\$	\$	\$ 2,431,674
Construction in Progress				
Total	<u>2,431,674</u>		<u>0</u>	<u>2,431,674</u>
 <i>Capital Assets being depreciated:</i>				
Buildings & Improvements	3,173,359			3,173,359
Infrastructure	543,099	472,638		1,015,737
Vehicles and Equipment	5,033,775	59,477		5,093,252
Total	8,750,233	532,115	0	9,282,348
Less: Accumulated Depreciation:	<u>(3,711,749)</u>	<u>(417,020)</u>		<u>(4,128,769)</u>
Total Net Depreciated Assets	<u>5,038,484</u>	<u>115,095</u>	<u>0</u>	<u>5,153,579</u>
 Governmental capital assets, net	 \$ <u>7,470,158</u>	 \$ <u>115,095</u>	 \$ <u>0</u>	 \$ <u>7,585,253</u>
 Business-type activities:				
<i>Capital Assets not being depreciated:</i>				
Land	\$ 235,391	\$	\$	\$ 235,391
Construction in Progress		88,741		88,741
Total	<u>235,391</u>	<u>88,741</u>	<u>0</u>	<u>324,132</u>
 <i>Capital Assets being depreciated:</i>				
Buildings & Improvements	521,009	162,238		683,247
Infrastructure	14,034,353			14,034,353
Vehicles and Equipment	4,246,515	43,563		4,290,078
Total	18,801,877	205,801	0	19,007,678
Less: Accumulated Depreciation	<u>(6,583,563)</u>	<u>(697,348)</u>		<u>(7,280,911)</u>
Total Net Depreciated Assets	<u>12,218,314</u>	<u>(491,547)</u>	<u>0</u>	<u>11,726,767</u>
 Business-type capital assets, net	 \$ <u>12,453,705</u>	 \$ <u>(402,806)</u>	 \$ <u>0</u>	 \$ <u>12,050,899</u>

**CITY OF HAILEY, IDAHO
NOTES TO THE FINANCIAL STATEMENTS
AT SEPTEMBER 30, 2010**

Continued...

NOTE 6 - VOUCHERS PAYABLE AND ACCRUED LIABILITIES

Vouchers payable and accrued expenses are stated at cost and are recognized liabilities for goods and services rendered to the City as of September 30.

NOTE 7 - ACCRUED COMPENSATED ABSENCES

Compensated absences for vacation pay, sick pay and "comp" time have been accrued. "Comp" time is computed at the rate of 1-hour overtime equals 1.5 hours off. Compensated absences are reported as accrued in the government-wide and proprietary fund financial statements. Such compensation in the governmental fund financial statements will be paid from future resources of the City and is, therefore, reported only if matured compensated absences are payable to currently terminating employees, when it is included in accrued payroll and benefits.

NOTE 8 - LONG-TERM OBLIGATIONS

The City has entered into the following agreements.

<u>Description</u>	<u>Maturity Date</u>	<u>Rate</u>	<u>Amount Outstanding 9/30/2009</u>	<u>Additions</u>	<u>Deductions</u>	<u>Amount Outstanding 9/30/2010</u>	<u>Amount Due in 1 Year</u>
GENERAL FUND							
Bonds Payable:							
General Obligation							
Bonds 2010	08/01/20	Var.	\$ 0	3,425,000		3,425,000	285,000
Other:							
Accrued Compensated Absences	N/A		190,963	\$ 15,623		206,586	
Total General Fund			<u>190,963</u>	<u>3,440,623</u>	<u>0</u>	<u>3,631,586</u>	<u>285,000</u>
PROPRIETARY FUND							
Bonds and Loans Payable:							
Sewer Revenue Bond	03/01/21	Var.	3,298,596		210,169	3,088,427	205,000
Water DEQ Loan	11/12/28	3.50%	2,357,712		86,504	2,271,208	89,141
Other:							
Accrued Compensated Absences	N/A		38,889		4,078	34,811	
Total Proprietary Fund			<u>\$ 5,695,197</u>	<u>\$ 0</u>	<u>\$ 300,751</u>	<u>\$ 5,394,446</u>	<u>\$ 294,141</u>

CITY OF HAILEY, IDAHO
NOTES TO THE FINANCIAL STATEMENTS
AT SEPTEMBER 30, 2010

Continued...

NOTE 9 -SEWER REVENUE BONDS

On April 17, 2001, the City of Hailey issued revenue bonds to advance refund a Department of Environmental Quality (DEQ) loan of \$4,500,000. The bonds were sold at a discount causing an additional cash flow requirement over the life of the new loan in the amount of \$161,280.

Revenues of the Waste Water Fund serve as collateral for bond payments. A bond maturity and interest schedule of the issued bonds is contained in the schedule on page 33 of these financial statements.

The Sewer Revenue Bond payable is comprised of the following:

Sewer Revenue Bonds Outstanding	\$ 3,005,000
Unamortized Interest Expense	<u>83,427</u>
	<u><u>\$ 3,088,427</u></u>

NOTE 10 – WATER LOAN PAYABLE

In 2007 the City of Hailey constructed a two million gallon drinking water storage facility in Quigley Canyon with monies borrowed from the State of Idaho Revolving Loan Fund. This loan was satisfied in 2009 with permanent financing through an Idaho Department of Environmental Quality Drinking Water Revolving Loan Program promissory note in the amount of \$2,400,000. The loan requires semi-annual principle and interest payments over a twenty (20) year period. The loan bears a fixed interest rate of 3.50%.

Revenues of the Water Fund serve as collateral for loan payments. A loan maturity and interest schedule of the issued loan is contained in the schedule on page 34 of these financial statements.

NOTE 11 – GENERAL OBLIGATION BONDS PAYABLE

In 2010 the City of Hailey sold \$ 3,425,000 of General Obligation Bonds to construct the project entitled Rodeo Park. This project will reconstruct the rodeo grounds, improve the skate park and construct an ice skating facility. These bonds will be repaid from the general revenues of the City under the schedule of payments on page 35 of these financial statements. The bonds were sold at a premium that will be amortized over the life of the bonds.

**CITY OF HAILEY, IDAHO
NOTES TO THE FINANCIAL STATEMENTS
AT SEPTEMBER 30, 2010**

Continued...

NOTE 12 - EMPLOYEE RETIREMENT PLAN

Public Employee Retirement System of Idaho - The Public Employee Retirement System of Idaho (PERSI), a cost sharing multiple-employer public retirement system, was created by the Idaho State Legislature. It is a defined benefit plan requiring that both the member and the employer contribute. The plan provides benefits based on members' years of service, age and compensation. In addition, benefits are provided for disability, death, and survivors of eligible members or beneficiaries. The authority to establish and amend benefit provisions is established in Idaho Code. Designed as a mandatory system for eligible state and school district employees, the legislation provided for other political subdivisions to participate by contractual agreement with PERSI. Financial reports for the plan are available from PERSI upon request.

After five years of credited service, members become fully vested in retirement benefits earned to date. Members are eligible for retirement benefits upon attainment of the ages specified for their employment classification. For each month of credited service, the annual service retirement allowance is 2.0% (2.3% police/firefighter) of the average monthly salary for the highest consecutive forty-two months.

The contribution requirements of the City of Hailey and its employees are established and may be amended by the PERSI Board of Trustees. For the year ended September 30, 2010, the required contribution rate as a percentage of covered payroll for members was 6.23% for general members and 7.65% for police/firefighters. The employer rate as a percentage of covered payroll was 10.39% for general members and 10.73% for police/firefighters. The City of Hailey contributions required and paid were \$ 303,376, \$304,757 and \$297,254 for the three years ended September 30, 2010, 2009, and 2008 respectively.

NOTE 13 - INVESTMENT IN JOINT VENTURE - FRIEDMAN MEMORIAL AIRPORT

Effective October 1, 1994, Blaine County, Idaho and the City of Hailey, Idaho entered into a Joint Powers Agreement creating the Friedman Memorial Airport Authority for the purpose of operating and managing airport activities in the City of Hailey, Idaho. The Authority is a public entity of the State of Idaho and therefore the Authority's income is exempt from Federal and Idaho income taxes. A five-member board governs the Airport Authority with two members representing Blaine County, two members representing the City of Hailey and one member who is unanimously selected by the other four members. The Authority has hired employees to provide for the day-to-day operations and management.

Pursuant to the Joint Powers Agreement, all buildings, improvements, facilities, equipment, and personal property used by the Authority were conveyed by Blaine County and the City of Hailey to the Authority for use and benefit of the Authority and title thereof shall be held by the Authority. Upon termination of this Agreement, title to all buildings, improvements, facilities, equipment and personal property held by the Authority shall vest jointly in Blaine County and the City of Hailey.

Audited financial statements of the Friedman Memorial Airport Authority for the year ended September 30, 2010 can be obtained at the Airport, Blaine County, or the City of Hailey offices.

CITY OF HAILEY, IDAHO
NOTES TO THE FINANCIAL STATEMENTS
AT SEPTEMBER 30, 2010

Continued...

NOTE 14 -RISK MANAGEMENT

A City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the fiscal year, the City contracted with Idaho County Risk Management Program (ICRMP) for property, crime and fleet insurance and the State Insurance Fund for workman's compensation. Under the terms of the ICRMP policy, The City of Hailey's liability is limited to the amount of annual financial membership contributions including \$1,000 per occurrence deductible with a \$10,000 annual aggregate stop-loss. There has been no significant reduction in insurance coverage in the current year. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

NOTE 15 – LITIGATION

The City, at the financial statement date, is involved in two pending lawsuits from disputes over housing ordinances and building code regulations. The City's legal council has determined that it is not possible to determine the outcome of either of these matters. Additionally, it is not possible to determine any material affect of these matters on the financial position of the City.

CITY OF HAILEY, IDAHO
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual -- General Fund
for the year ended September 30, 2010

	<u>Original and Final Budget Amounts</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUE:			
Property taxes	\$ 1,867,411	\$ 1,866,098	\$ (1,313)
Local Option sales taxes	80,262	71,422	(8,840)
Franchises, licenses, permits:			
Alcohol Catering Licenses	1,640	1,360	(280)
Police Security	9,000	2,725	(6,275)
Building Permits	157,200	112,930	(44,270)
Business Licenses	405,500	350,111	(55,389)
Encroachment Permits	6,875	5,150	(1,725)
Franchises - Cable TV	85,500	73,608	(11,892)
Banner Fees	5,600	4,000	(1,600)
Franchises - Idaho Power	52,000	49,670	(2,330)
Franchises - Intermountain Gas	109,500	81,512	(27,988)
Franchises - Rubbish Company	87,000	74,568	(12,432)
Sign Permits	2,750	2,480	(270)
Fire Dept Permits	17,000	10,549	(6,451)
Subdivision Inspection Permits	420	700	280
Zoning Applications	24,700	(1,571)	(26,271)
Maps, Copies, and Postage	5,500	3,051	(2,449)
State of Idaho shared revenue		128,710	128,710
State of Idaho sales tax	459,295	428,226	(31,069)
State of Idaho liquor receipts	153,000	144,314	(8,686)
State highway user collections	267,330	267,735	405
Penalty and interest on property taxes	7,000	9,426	2,426
County court fines	63,750	51,305	(12,445)
Fees, fines and charges for services:			
HPD Traffic School	46,200	59,156	12,956
Library Fines and Memberships	20,000	21,018	1,018
Library Meeting Room Rentals			0
Park Rental Fees	13,500	12,169	(1,331)
RV Dump Fees	340	515	175
Rubbish Bookkeeping Contract	87,000	74,619	(12,381)
Police Security Contracts	173,000	156,807	(16,193)
Police Security Contr-School	68,000	66,119	(1,881)
Grants and contributions	22,000	22,381	381
Earnings on investments	150,000	8,031	(141,969)
Miscellaneous:			
Property Sales			0
Refunds and Reimbursements	29,000	9,792	(19,208)
Mutual Aid Reimbursements	20,000	800	(19,200)
Other		162,431	162,431
Total Revenue	<u>4,497,273</u>	<u>4,331,917</u>	<u>(165,356)</u>

CITY OF HAILEY, IDAHO
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual -- General Fund
for the year ended September 30, 2010

Continued.....

	<u>Original and Final Budget Amounts</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
EXPENDITURES:			
General Government:			
Legislative Department	252,037	232,149	19,888
Finance and Records	265,047	256,609	8,438
Planning	220,709	212,064	8,645
Building	136,948	109,391	27,557
Public Works	72,443	108,389	(35,946)
Public Safety:			
Police	1,422,438	1,380,398	42,040
Fire Protection	463,274	439,781	23,493
Streets	1,037,728	918,103	119,625
Library	472,167	454,790	17,377
Parks and Recreation	154,482	189,843	(35,361)
	<u>4,497,273</u>	<u>4,301,517</u>	<u>195,756</u>
EXCESS REVENUE (EXPENDITURES)	0	30,400	30,400
OTHER FINANCING SOURCES (USES):			
Operating transfers from other funds			
Operating transfers (to) other funds			
	<u> </u>	<u> </u>	<u> </u>
NET CHANGE IN FUND BALANCES	0	30,400	<u>30,400</u>
FUND BALANCE - BEGINNING	<u>680,988</u>	<u>680,988</u>	
FUND BALANCE - ENDING	<u>\$ 680,988</u>	<u>\$ 711,388</u>	

CITY OF HAILEY, IDAHO
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual -- Capital Improvement Fund
for the year ended September 30, 2010

	<u>Original and Final Budget Amounts</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUE:			
Capital Projects Bond Revenue	\$	\$	\$
Penalties and interest on Bond			
Annexation Fees	0	55,547	55,547
In-Lieu Fees for Capital Projects	0	59,596	59,596
DIF Parks	0	12,142	12,142
DIF Transportation	0	29,179	29,179
DIF Police	0	5,688	5,688
DIF Fire and EMS	0	30,946	30,946
DIF CIP Cost	0	3,358	3,358
Property Sales			
Grants and contributions	0	17,920	17,920
Earnings on investments	0	43,528	43,528
Reimbursements	0	28,639	28,639
	<u>0</u>	<u>286,543</u>	<u>286,543</u>
Total Revenue	<u>0</u>	<u>286,543</u>	<u>286,543</u>
EXPENDITURES:			
General Government	0	16,305	(16,305)
Public Safety	0	3,621	(3,621)
Streets	232,000	45,770	186,230
Capital outlay			
Parks and Recreation	140,000	54,341	85,659
Transportation			
Rodeo Park	0	399,849	(399,849)
Debt Service			
	<u>372,000</u>	<u>519,886</u>	<u>(147,886)</u>
Total Expenditures	<u>372,000</u>	<u>519,886</u>	<u>(147,886)</u>
EXCESS REVENUE (EXPENDITURES)	(372,000)	(233,343)	138,657
OTHER FINANCING SOURCES (USES):			
Operating transfers from other funds			
Operating transfers (to) other funds			
NET CHANGE IN FUND BALANCES	(372,000)	(233,343)	138,657
FUND BALANCE - BEGINNING	<u>2,765,587</u>	<u>2,765,587</u>	<u>0</u>
FUND BALANCE - ENDING	<u>\$ 2,393,587</u>	<u>\$ 2,532,244</u>	<u>\$ 138,657</u>

CITY OF HAILEY, IDAHO
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual -- Debt Service Fund
for the year ended September 30, 2010

	<u>Original and Final Budget Amounts</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUE:			
Property taxes	\$	\$	\$
Local Option sales taxes			
Franchises, licenses, permits			
State of Idaho shared revenue			
State of Idaho sales tax			
State of Idaho liquor receipts			
State highway user collections			
Penalty and interest on property taxes			
County court fines			
Fees, fines and charges for services			
Grants and contributions			
Earnings on investments	0	1,523	1,523
Miscellaneous - Sale of G.O. Bonds	<u>0</u>	<u>3,539,979</u>	<u>3,539,979</u>
Total Revenue	<u>0</u>	<u>3,541,502</u>	<u>3,541,502</u>
EXPENDITURES:			
General Government			
Public Safety			
Streets			
Capital outlay			
Parks and Recreation			
Transportation			
Affordable Housing			
Debt Service			
Total Expenditures		<u>0</u>	<u>0</u>
EXCESS REVENUE (EXPENDITURES)	0	3,541,502	3,541,502
OTHER FINANCING SOURCES (USES):			
Operating transfers from other funds			
Operating transfers (to) other funds			
NET CHANGE IN FUND BALANCES	0	3,541,502	3,541,502
FUND BALANCE - BEGINNING	<u>0</u>	<u>0</u>	<u>0</u>
FUND BALANCE - ENDING	<u>\$ 0</u>	<u>\$ 3,541,502</u>	<u>\$ 3,541,502</u>

CITY OF HAILEY, IDAHO
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual -- Water Fund
for the year ended September 30, 2010

	<u>Original and Final Budget Amounts</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUE:			
User Fees	\$ 850,000	\$ 858,395	\$ 8,395
Capital Projects Bond Fees	169,031	166,867	(2,164)
Hook-up Fees	147,720	32,129	(115,591)
Service Charges	21,000	20,939	(61)
Meter Reimbursements	10,000	4,144	(5,856)
Idaho Power Hydroplant Revenues	6,000	538	(5,462)
Inspection/Live Tap Fees	3,000	850	(2,150)
Water Fill Tower Permits	0	2,375	2,375
Earnings on investments	21,000	38,216	17,216
Grants and Contributions			
Miscellaneous		34	34
	<u>1,227,751</u>	<u>1,124,487</u>	<u>(103,264)</u>
EXPENDITURES:			
Labor and Benefits	453,966	502,756	(48,790)
Administrative and supplies	570,071	451,261	118,810
Debt Service	169,031	166,618	2,413
Capital Outlay	35,903	43,563	(7,660)
	<u>1,228,971</u>	<u>1,164,198</u>	<u>64,773</u>
EXCESS REVENUE (EXPENDITURES)	(1,220)	(39,711)	(38,491)
OTHER FINANCING SOURCES (USES):			
Operating transfers from other funds			
Operating transfers (to) other funds			
Depreciation and Debt Reduction Amounts		(189,847)	
		<u>(189,847)</u>	
NET CHANGE IN FUND BALANCES	(1,220)	(229,558)	
FUND BALANCE - BEGINNING	<u>7,622,604</u>	<u>7,622,604</u>	<u>0</u>
FUND BALANCE - ENDING	<u>\$ 7,621,384</u>	<u>\$ 7,393,046</u>	<u>\$ 0</u>

CITY OF HAILEY, IDAHO
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual -- Wastewater Fund
for the year ended September 30, 2010

	<u>Original and Final Budget Amounts</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUE:			
User Fees	\$ 1,125,000	\$ 936,318	\$ (188,682)
Capital Projects Bond Fees	241,517	235,048	(6,469)
Hook-up Fees	125,080	21,889	(103,191)
Service Charges			
Inspection/Live Tap Fees	2,000	1,900	(100)
Earnings on investments	35,000	15,470	(19,530)
Grants and Contributions	0	160,570	160,570
Miscellaneous			
	<u>1,528,597</u>	<u>1,371,195</u>	<u>(157,402)</u>
EXPENDITURES:			
Labor and Benefits	611,165	572,954	38,211
Administrative and supplies	484,657	383,616	101,041
Debt Service	359,695	345,553	14,142
Capital Outlay	127,903	162,238	(34,335)
	<u>1,583,420</u>	<u>1,464,361</u>	<u>119,059</u>
EXCESS REVENUE (EXPENDITURES)	(54,823)	(93,166)	(38,343)
OTHER FINANCING SOURCES (USES):			
Operating transfers from other funds			
Operating transfers (to) other funds			
Depreciation and Debt Reduction Amounts		(20,198)	20,198
		<u>(20,198)</u>	<u>20,198</u>
NET CHANGE IN FUND BALANCES	(54,823)	(113,364)	58,541
FUND BALANCE - BEGINNING	<u>4,126,619</u>	<u>4,126,619</u>	<u>0</u>
FUND BALANCE - ENDING	<u>\$ 4,071,796</u>	<u>\$ 4,013,255</u>	<u>\$ 58,541</u>

CITY OF HAILEY, IDAHO
Bond-Future Principal and Interest Requirements
at September 30, 2010

	Annual Payment			
	Interest Rate	Fiscal Year	Principal Payment	Interest Payment
Sewer Revenue Bonds 2001 \$4,500,000, April 17, 2001 4.50% - 5.625%	5.625%	2011	\$ 205,000	\$ 153,422
	5.625%	2012	220,000	141,469
	5.625%	2013	230,000	128,813
	5.625%	2014	245,000	115,453
	5.625%	2015	260,000	101,250
	5.625%	2016	270,000	86,344
	5.000%	2017	285,000	71,625
	5.000%	2018	300,000	57,000
	5.000%	2019	315,000	41,625
	5.000%	2020	330,000	25,500
	5.000%	2021	345,000	8,625
			\$ 3,005,000	\$ 931,126

The accompanying notes are a part of these financial statements.

CITY OF HAILEY, IDAHO
Loan-Future Principal and Interest Requirements
at September 30, 2010

		Annual Payment			
		Interest Rate	Fiscal Year	Principal Payment	Interest Payment
Drinking Water Revolving Promissory Loan					
\$2,400,000, November 20, 2008		3.50%	2011	\$ 89,141	\$ 78,745
	3.50%	3.50%	2012	92,083	75,803
		3.50%	2013	95,539	72,347
		3.50%	2014	98,912	68,974
		3.50%	2015	102,405	65,481
		3.50%	2016	105,853	62,033
		3.50%	2017	109,757	58,129
		3.50%	2018	113,633	54,253
		3.50%	2019	117,644	50,242
		3.50%	2020	121,675	46,211
		3.50%	2021	126,094	41,792
		3.50%	2022	130,546	37,340
		3.50%	2023	135,155	32,731
		3.50%	2024	139,853	28,033
		3.50%	2025	144,864	23,022
		3.50%	2026	149,979	17,907
		3.50%	2027	155,274	12,612
		3.50%	2028	160,741	7,145
		3.50%	2029	82,462	1,455
				<u>\$ 2,271,611</u>	<u>\$ 834,254</u>

The accompanying notes are a part of these financial statements.

CITY OF HAILEY, IDAHO
Loan-Future Principal and Interest Requirements
at September 30, 2010

	Annual Payment			
	Interest Rate	Fiscal Year	Principal Payment	Interest Payment
General Obligation Bonds, Series 2010 \$3,425,000, August 1, 2010 2.00% - 3.00%	2.00%	2011	\$ 285,000	\$ 86,243
	2.00%	2012	320,000	81,025
	2.00%	2013	325,000	74,625
	2.00%	2014	330,000	68,125
	2.50%	2015	340,000	61,525
	2.50%	2016	345,000	53,025
	3.00%	2017	355,000	44,400
	3.00%	2018	365,000	33,750
	3.00%	2019	375,000	22,800
	3.00%	2020	385,000	11,550
			\$ 3,425,000	\$ 537,068

The accompanying notes are a part of these financial statements.



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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

April 20, 2011

To the Honorable Mayor and City Council
City of Hailey
Hailey, Idaho

I have audited the financial statements of the governmental activities and business-type activities of the City of Hailey, Idaho, as of and for the year ended September 30, 2010, which collectively comprise the City of Hailey Idaho's basic financial statements and have issued my report thereon dated April 20, 2011. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the City of Hailey, Idaho's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the City's internal control over financial reporting.

My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, I identified a deficiency in internal control over financial reporting that I consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. I consider the deficiency described in the accompanying schedule of findings to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Continued—

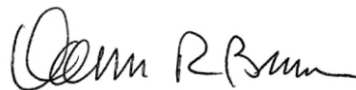
My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, I consider the significant deficiency described in item 2010-1 of the accompanying schedule of findings and responses to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Hailey, Idaho's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The City's response to the findings identified in my audit is described in the accompanying schedule of findings. I did not audit the City's response and, accordingly, I express no opinion on it.

This report is intended for the information and use of the City Council, management, others within the organization, and state and federal government oversight authorities and is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit the distribution of this report, which is a matter of public record.



DENNIS R. BROWN
Certified Public Accountant

CITY OF HAILEY, IDAHO
Schedule of Findings and Responses
For the Year Ended September 30, 2010

Finding 2010-1: Lack of ability to independently prepare financial statements and related footnote disclosures.

Condition: The City does not have the resources to independently prepare financial statements and related footnote disclosures in accordance with generally accepted accounting principles.

Criteria: Inherent in an adequate internal control structure is the ability to independently prepare financial statements and related footnote disclosures in accordance with generally accepted accounting principles.

Effect: The lack of this ability may result in more than a remote likelihood that a misstatement of the financial statements will not be prevented or detected by the City's internal control.

Recommendation: It is suggested the City budget for sufficient training of accounting personnel in order to provide them with the expertise necessary to prepare financial statements and related footnote disclosures in accordance with generally accepted accounting principles. Alternatively, the City could contract with an individual or firm other than the audit firm to prepare the financial statements and related footnote disclosures.

Response: We, the management of the City of Hailey, Idaho, understand the circumstances that we and many small governments nationwide inevitably find ourselves in because of budget constraints. We acknowledge the fact that we do not have the necessary funding to staff additional accounting personnel to enable us to keep current with all accounting and auditing pronouncements and provisions to independently prepare financial statements and footnote disclosures. We believe the benefits of allocating such resources would be outweighed by the cost of maintaining or training our own accounting personnel and or contracting with another individual or firm to prepare the financial statements and related footnotes in accordance with generally accepted accounting principles. We have requested that the auditors assist in drafting the financial statements and related footnote disclosures during the course of the audit. We have reviewed, approved and accepted responsibility for those financial statements prior to their issuance. We did not perform a detailed review of the financial statements, however, we are satisfied that our review was sufficient to allow us to accept responsibility for them.